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OUR FAMILY SKELETON.

BY CLARK HOWELL.

IF THE conclusions of Mr. John F. Hume, in his ghastly exhibition of the decaying remnants of "Our Family Skeleton," in the June issue of THE REVIEW, are correct, it follows that two things are true: First, that the credit of the States of the South is now below par, as compared with that of the States of other sections; and Second, that this condition, if properly stated, is the direct result of the past repudiation, by the States of the South, of large parts of their bonded indebtedness, which repudiation is the skeleton that Mr. Hume drags from the Southern closet, and flaunts in the eyes of capital as a menace to divert it from the channels of Southern investment. If, therefore, it can be demonstrated that the credit of the Southern States is not only as good, but better than that of some States which have no record of repudiation, and that, as a whole, the credit of the Southern States bears favorable comparison with that of the States of any other section of the Union, then it follows that "our family skeleton" of repudiation is no longer efficacious for the use to which Mr. Hume would put it, to wit: As a scarecrow to frighten capital from the field of Southern investment.

In the first place Mr. Hume does not correctly express the sentiment of the Southern States in his effort to make it appear that they are disinclined to a discussion of the question, and that "to many Southern people the subject is rather a delicate one." He deplores the fact that the Southern governors who recently conferred at Richmond, Va., for the purpose of calling attention to the advantages offered to capital in the development of Southern resources, omitted from their proceedings an inspection of the skeleton, and, excusing their reticence on the ground that the

subject was a tender one, he justifies his attack on Southern credit by the statement that he "does not feel bound to follow their example."

In the commendable work put on foot by the Southern governors at Richmond, the question of repudiated State bonds was not considered, because such discussion was not one of the purposes of the conference, not because the question was a distasteful one, but on account of the fact that the praiseworthy effort of the Southern governors to invite the attention of outside capital to the rich fields of undeveloped resources in the South, was based on abundant evidence that the disestablished credit of the South, resulting from the chaotic condition following the war, was thoroughly re-established, and that confidence in Southern securities was now regulated by the same conditions that controlled the estimate of the credit of any other section, the prime factor in which is the security of the obligations offered, not under past, but under existing conditions.

If, as Mr. Hume holds, it be true that the repudiation by the Southern States of bonds issued contrary to law, many of them admittedly illegal, unconstitutional, and worse than that, monstrously fraudulent, has injured the credit of the Southern States, this would, at once, become evident by public discredit of the securities issued since then, the value of which, according to Mr. Hume's theory, would be manifestly below that of the securities of States whose credit had not been injured by repudiation. And yet we find that Alabama five per cent. interest bonds are quoted in New York at from 100 to 105; Florida 6's at 127; Louisiana 4's at 98; North Carolina 6's at 127; South Carolina 4½'s at from 99 to 100; Tennessee (settlement) 5's at 105; and Georgia 4½'s at from 110 to 112. Among the States which have not repudiated, Connecticut 3½'s are quoted at 100; Maine 3's at from 97 to 99; Massachusetts 5's at 106½ to 107; Rhode Island 6's at 100.

There has not been an issue of Georgia bonds in the past ten years which was not readily disposed of in New York at terms strongly expressive of the good estimate that capital places on the credit of the State. As it is with Georgia, so it is with other Southern States, the credit of which, under the new order of things established with the reorganization of affairs after the reconstruction legislatures had sapped the vitality of every Southern

State, was soon readjusted to a normal basis, gaining strength year after year in proportion to the degree of recovery of the States from the rude shock of war.

Those who are not familiar with the facts cannot appreciate the condition in which the South was left after the war. With its assets halved, its debts more than trebled, commerce prostrated, and its social condition placed on a new basis, the burdens of the Southern States had in a few years increased in more than treble proportion to the decrease of their strength to bear them. Had conditions not been so materially changed by the war, I believe that the South would have cleared itself entirely of the record of repudiation by paying dollar for dollar even for the proceeds of the bonds which were unconstitutional and unauthorized, or by arriving at a satisfactory settlement with the bondholders, even had it become necessary to go to the extreme adopted by Minnesota of clearing its record of repudiation by a compromise settlement of 50 cents on the dollar. At the beginning of the war almost every Southern State had just about as heavy a load as it was possible to carry. But their obligations would have been satisfactorily disposed of in due time had not the war precipitated a condition which forced a different treatment of the question from that which would probably otherwise have been adopted. In this connection statistics throw valuable light on the strikingly disproportionate development in the tremendous decrease in the taxable basis of the South between 1860 and 1870, and the enormous increase in the bonded indebtedness of the same States during the same period, which was the era of germination and development of most of the repudiated bonds. The first of the following tables is taken from the valuable treatise on "Repudiation of State Debts," by Professor Scott, of the Chair of Political Economy of the University of Wisconsin, and the second from an article of Mr. R. P. Porter, in *The International Review*:

FALL IN TAXABLE BASIS OF THE SOUTHERN STATES.

	1860.	1870.	Per cent. of decrease.
Virginia	\$657,021,336	\$505,978,190	23
North Carolina.....	292,297,602	130,378,190	55.4
South Carolina.....	489,319,128	183,913,327	62.4
Georgia.....	618,232,387	227,219,519	63.2
Florida.....	68,929,685	32,480,843	52.9
Alabama	432,198,762	155,582,595	64
Mississippi.....	509,472,912	177,278,890	65.5
Louisiana.....	435,787,265	253,371,890	41.9
Arkansas.....	180,211,330	91,528,843	47.5
Tennessee.....	382,495,200	253,782,161	33.7

INCREASE IN STATE DEBTS BETWEEN 1860 AND 1870 AND 1880.

	1860.	1870.	1880.	Highest point reached by debt.
Virginia.....	\$31,779,062	\$47,391,830	\$29,345,238	\$47,390,839
North Carolina.....	9,699,000	29,900,045	3,629,511	29,900,045
South Carolina.....	4,046,540	7,665,909	7,175,354	24,782,906
Georgia.....	2,670,750	6,544,500	10,334,000	20,197,500
Florida.....	4,120,000	1,288,697	1,391,357	5,512,268
Alabama.....	6,700,000	8,478,018	11,613,670	31,952,000
Mississippi.....	None	1,796,230	379,485	3,220,847
Louisiana.....	4,561,109	25,021,743	12,635,810	40,416,734
Arkansas.....	3,092,623	3,459,557	5,813,627	18,287,273
Tennessee.....	20,898,606	38,539,802	25,685,822	41,863,406

In the last of the above tables it will be observed that most of the State debts in 1880 show a vast increase over those of 1860, notwithstanding the fact that the figures given for 1880 are those left after the weeding out process of repudiation of unauthorized bonds. The last column in the above table represents the highest point reached by the debt of the States, including the bogus bonds, after the elimination of a large part of which the figures indicating the debts in 1880 remain.

It is not my purpose to enter into a discussion of the merits or demerits involved in the repudiation acts of the Southern States. Nor could I do so in the necessarily limited space of magazine discussion. The record of every State is made, and the action of each was the result of mature deliberation. For reasons satisfactory to the States themselves, and which have become a matter of history, a large part of the bonded indebtedness of these States was declared to be illegal, unauthorized, and unconstitutional, and and the States felt themselves justified in repudiating obligations to which they had been committed without due process of law, and by corrupt officials whose record of barter and sale of the credit of their respective States forms a part of the reconstruction history of the South. As for myself, I take the broad position that for every dollar borrowed in good faith on the legal credit of any State a dollar should be paid. Going further than this, I think the equities involved call for the settlement by the States of such bonded obligations as were taken in good faith, and the proceeds of which were clearly used for public purposes. But for such bonded indebtedness as was fixed on the Southern States by those who overturned both human and divine law to obtain authority which did not exist, and who used the good names and credit of the Southern States by which to obtain money which they poured like water down the channels of their riotous and unceasing demand for pillage and plunder, I do not think that either equity,

justice, or law should require payment by the States which were so palpably robbed, and which, generally speaking, did not even receive the benefit resulting from the proceeds of the bonds to which their names were so mercilessly pledged.

In his treatise on "The Laws of Public Securities," p. 5, a well-known authority on the subject (Burroughs) says:

"All who deal with a public agent or officer must take notice of his powers. He derives his authority from the law which authorizes his appointment. No person may profess ignorance of the extent of the powers of a public agent."

This is a broad principle of law which not only justified the States of the South in refusing to meet obligations which did not belong to them, but which also prevents such action from menacing the good standing of their credit, for, under the new conditions established with the reorganization of internal affairs after the South had obtained possession of itself, a basis of credit was established from which it would be as reasonable to say that the Southern States would depart as it would be to charge that Pennsylvania, Michigan, Wisconsin, or Minnesota would repudiate their obligations of to-day because they had done so in the past.

I quote from Mr. Hume's article, in which, after dwelling upon the fact that the development of the South has been materially retarded by its lack of credit, and by the fear of capital in entering a territory in which the repudiation "skeleton" stalks, the following:

"Georgia is the South's recognized leader in wealth and enterprise, but most of Georgia's railroads are in receivers' hands. It is not so much that outside capital avoids the South. There is plenty of it seeking her coal, iron, and timber lands, and even millions have disappeared in her luckless 'boomer' cities and towns. Why is it, then, that when we come to their railroads, their stocks are shunned by investors, and even their mortgage securities go at murderous discounts? Is it not because, being quasi-public institutions, operating under State legislation and supervision, they share to a considerable extent the discredit of their legal masters and sponsors?"

After this Mr. Hume proceeds to show that not only all the railroads, but corporations generally, including the counties and towns of the South, "are more or less sufferers in the same way." It is a pity that in a charge so grave the author should content himself with a mere statement, without giving either facts or figures to sustain it. Instead of the conditions being correctly stated, the exact reverse of the situation described by Mr. Hume is true. Neither the cities nor the counties of the South are any greater sufferers from lack of credit than the counties or the cities

of any other section of the country. On the contrary, the credit of the city of Atlanta is gilt-edged, and during the past decade she has not issued a bond which has not been promptly taken at an exceedingly low rate of interest. So it is with all of the leading Southern cities, where the restrictions of the law have been clearly complied with in the use of their credit.

As to the Southern railroads being involved in receivership complications as the result of the repudiation acts of Southern States, the conclusion is too far-fetched to invoke serious consideration. Suffice it to say that some of the greatest railroad systems in the United States and Canada are now in the hands of receivers, and there is not a State in the Union whose railroad mileage is not seriously involved in receivership litigation as the result of precisely the same conditions that have led to the appointment of receivers for some Southern roads. A most notable instance is that of the vast system of the Union Pacific Railroad, and even the fact that the government, itself, was its sponsor was not sufficient to keep it out of receivership coils. I have not the statistics before me, but the probability is that they will show that not less than three-fourths of the railroad mileage of the United States is now in the hands of the courts, and being administered by receivers. Even in States with such unquestioned credit as New York, Connecticut, and Massachusetts, the New York & New England Railroad has recently joined the receivership procession, in which it marches side by side with some of the greatest railroad systems of the New England, Middle, Western, and Pacific States.

And yet the great financial firm of Drexel, Morgan & Co., one of the strongest banking institutions on earth, did not stop to decry the credit of the Southern States when it signified its willingness to undertake the reorganization of the East Tennessee, Virginia & Georgia and the Richmond & Danville systems, which traverse the States of Virginia, North Carolina, South Carolina, Georgia, Alabama, Mississippi, and Tennessee.

It is a fact not generally known that an Attorney-General of New York delivered an opinion in which he stated, officially, that, after a careful investigation of the facts, he saw nothing that should in any wise impair the credit of the State of Georgia. I refer to the decision of Attorney-General O'Brien, which was extensively circulated when rendered, and which was given as the

result of a call for his construction of a statute of New York, to ascertain whether that statute would permit savings banks in New York to invest in an issue of three and a half millions of Georgia bonds, sold at a premium in 1885 to well known New York financiers. The statute referred to allowed "savings banks to invest in the stocks and bonds of any State that has not within ten years defaulted in the payment of principal or interest on any debt authorized by any legislature to be contracted." The petitioners, being the purchasers, were represented by Hon. N. J. Hammond and Mr. Pat Calhoun, of Atlanta, who were opposed by the holders of the repudiated bonds of the State of Georgia, whose counsel were Mr. Hutchins, Receiver of the American National Bank, of New York, and an ex-Member of Congress from that State, and ex-Chief Justice Lochrane, of the Supreme Court of Georgia. Counsel for the petitioners admitted that Georgia had not paid the interest on the repudiated bonds, but contended that because they were unconstitutional issues, they were not in any fair sense a "debt authorized by any legislature to be contracted." After a full investigation of the merits of the case, Attorney-General O'Brien rendered a decision, in which he took the position that most of the repudiated bonds of the State of Georgia had been issued unconstitutionally. Still he thought that a certain very small portion held by certain parties ought, under the circumstances, to be paid on the doctrine of estoppel, said parties having purchased certain bonds after a resolution of the General Assembly of Georgia recognizing their validity. The Attorney-General thought that under the law of New York the question of unconstitutionality could not probably be considered, though under a technicality savings banks could not invest in the bonds. He took pains to say that there was nothing in the investigation which should, in the slightest degree, impair the credit of the State, and this decision, and particularly the last statement referred to, was complained of severely at the time by those who were seeking to discredit the State, they charging that it was a voluntary indorsement of the State of Georgia, which the Attorney-General of the State of New York went out of his way to give.

As for development, railroad and otherwise, the answer of Georgia and other Southern States completely refutes the argument and annihilates the conclusion that repudiation has reduced

credit, and reduced credit has retarded development. Proof of the fact that more outside capital has sought investment in the development of Georgia than in probably any other State of the Union of the same population, in the past fifteen years, is absolute proof of the unsoundness of Mr. Hume's charge that withered resources awaiting development are the indirect result of the repudiation by the State of unauthorized debts.

For the past ten or fifteen years the record of railroad-building in the United States shows that Georgia has led, almost every year, in the mileage of new roads. Taken as a whole during that time the mileage of new railroads built in Georgia by far surpasses that of any other State in the Union. Most of the capital put in such development has come from the outside, and the repudiation "skeleton" had no terror for it. Some of the greatest railroad systems in the United States have pushed their lines into and through Georgia, and the remarkable advance made in the railroad development of the State has been but the index of that which has kept pace in the improvement of other resources. As it has been with Georgia so it has been with other Southern States, the railroad and general development of the South Atlantic and Gulf States having been more marked for the same period of time than that of any section of the country. Millions upon millions of dollars—most of it outside capital—have been invested in unlocking the mineral resources of Tennessee, Georgia, Alabama, Virginia, and West Virginia, and to a greater degree than in any other territory of the same area, have the untold iron, coal, mineral, marble, and hard-wood industries of these States responded to the quickening touch of outside capital.

In Florida, which Mr. Hume says "is responsible for four or five millions more" of repudiated bonds, and the development of which from the demoralization of repudiation, if Mr. Hume's argument be true, would be seriously retarded by the loss of credit incident to repudiation, we find the most remarkable evidence of the recent work of outside capital to be found probably in any State in the Union. Eminent Northern capitalists, ranking among the greatest financiers of the country, are there vying with one another in the apparent effort to see which can put the most money in transforming that beautiful land of sunshine into the

garden spot of the continent. Untold millions of Northern capital have been expended in building vast railroad systems, establishing steamship lines, constructing the most beautiful hotels on earth, and in otherwise adding to the marvellous gifts which nature had bestowed upon the state of perpetual summer. Neither Mr. Plant, nor Mr. Flagler, nor Mr. Disston, nor Mr. Duval has stopped to inquire into the issues involved in Florida's repudiated obligations, nor has the credit of the State been lessened one whit by such repudiation. The men who are spending their money there in such abundance that it is impossible to keep up with the details of the progress of the State, have satisfied themselves that the past is a matter of record, and that the present is an open book of brilliant promise for Florida's future. Whatever may have been the conditions leading to repudiation, they do not exist to-day, nor can they exist again under the wise restrictions of the reorganized fundamental law of the State, which, as other States have done, has thrown every possible safeguard around its credit, rendering it, like that of every other Southern State, as secure as that of any State in the Union.

In this connection, it may be well to call attention to the fact that the power of the States of the South to contract debts was, before the war, practically unlimited, as compared with the restrictions placed by the States upon themselves after the war. The necessity of this limitation was evolved from the dear experience bought from reconstruction legislatures, which would have broken the Bank of England if they had had the same opportunity to trifle with its credit that they did with that of the States, which their usurped charge came near bankrupting. The fundamental law of most of the Southern States, like that of a large majority of all the States of the Union, now inhibits State indorsement of corporation securities—a fruitful source of corruption and plunder before the war, and particularly during the reconstruction era—and forbids the use of the State's credit for any other than administrative, educational, or other such emergent purposes. I am aware that a favorite argument of those who hold the States responsible for all repudiated obligations, even though admitted to be unconstitutional, fraudulent, and unused for State purposes, is that innocent holders of the State obligations should not be made to suffer the penalty of the misuse of the State's credit. And yet to hold the State responsible for an obligation,

in the making of which it had given no authority whatsoever, would be to put a premium on corruption which would, if such a principle held good in law, imperil the credit of even the strongest and richest of the States of the Union. Carrying this argument to its logical conclusion would force the United States to redeem every dollar of counterfeit money in the hands of innocent holders, on the ground that they accepted the money on their faith that the government was back of it and was responsible for it.

The government itself established the precedent that the innocence of the bondholder was not to be considered as overcoming the illegality of the issue of securities held, in the adoption of the Fourteenth Amendment to the Constitution, which compelled the repudiation of debts contracted either for direct or indirect aid of the rebellion. Millions of dollars of bonded indebtedness of the Southern States were thus repudiated by the Federal Government itself after the war. Nor were the debts so repudiated incurred directly in aid of the rebellion, though they were placed, constructively, in that category. Vast amounts of money were raised on bonds by Southern States, not in aid of the Confederacy, but for the absolute protection of life against the ravages of destitution and starvation. It is not strange, therefore, that under the peculiar conditions existing at the time, the line of demarcation between such obligations as the Southern States were forced to dishonor, and others which they did dishonor for reasons fully as satisfactory to themselves, was necessarily vague.

The conditions of the South before the war and after the war widely differed. A new order of things grew out of the ashes of the fires left by the Northern armies. The change was even greater than that in which the new republic found itself when the Colonial armies cut the United States from English territory. Then the same homogeneous people, fresh from the strife of war, turned to the vocations which they left when they went to the field of battle, and devoted their energies with renewed enthusiasm to the upbuilding of industry and commerce on the same lines that they had pursued before. How different with the South in '65! A new era of industrial development and commercial possibilities dawned with the freedom of slave labor, by which the attention of the South had been confined almost entirely, most unfortunately, to agricultural pursuits. Tax valuations had been cut in half, and when the South finally awoke to a real-

ization of the fact that it was in the possession of its own people once more, it was astonished to find that its overwhelming burden of new indebtedness had increased in thrice the proportion of the decrease of its ability to pay. Irresponsible, corrupt, and despotic officials had gotten hold of the ledger of its credit, and had stamped debt, debt, debt on every page. No people under the sun ever faced such a task. The lack of limitation on the credit of the State, which had been safely guarded and protected by the conservatism and the honor of the people, had been taken advantage of by a horde of cormorant dervishes who, if they had been permitted to continue their mad carousal, would have placed a greater debt on the Southern States than could have been met by the combined nations of Europe. Yet such were the instruments chosen, amid such surroundings, to absolve the Southern States, by virtue of the Fourteenth Constitutional Amendment, from certain portions of their bonded indebtedness. Thus directed by the government to reorganize the fundamental law of the Southern States, they paid more attention to the details of making robbery easy than to the special work of repudiation assigned to them.

On regaining possession of their capitals, and resuming the administration of affairs, the people of the respective Southern States addressed themselves at once with becoming energy to the work of restoration and rehabilitation, and to the more important task of establishing laws and regulations to meet the requirements of the new order of things. This great task they soon performed, and so wisely did they execute it that the credit established by the Southern States on the new basis, and under the new era of their progress, was at once put on a firm foundation, which has been strengthened year after year by the never-failing test of experience. It will not do for Mr. Hume to point to ancient evidences of dishonored and unauthorized debts which are being hawked about the stock market of New York, at a few cents on the dollar, to establish his charge that the credit of the Southern States has been seriously impaired by such repudiation. The only demonstration of the correctness of his proposition would be the failure of the Southern States to negotiate loans on their credit, under reasonable terms, during a comparatively recent period. Instead of this being true, the record of daily stock market quotations shows that the obligations of the Southern States since

they have fully gained possession of themselves and have adjusted their laws to meet the new conditions growing out of the war, float side by side, and under essentially the same terms, with those of the States of every other part of our common country. Since it has been demonstrated, therefore, that the credit of the States of the South is not now at the low ebb Mr. Hume argues it to be, and since it is clearly demonstrated that their credit compares favorably with the States of other sections which have no record of repudiation, and since these two propositions form the premise of Mr. Hume's doleful conclusion of the direct result of past repudiation, it follows that, being wrong in his premise, his conclusion is equally erroneous. Nor is it demonstrated that this conclusion is wrong, on the principle that his premise is incorrect, for the actual evidence of statistics and of financial records, corroborated by the daily details of the unprecedented development of the resources of the Southern States, by the influx of outside capital, proves both his premise and his conclusions to be false.

Notwithstanding the fact that the affairs of the South have become thoroughly adjusted to prevailing conditions, and that the credit of every Southern State is thoroughly established, I would not be understood as taking the position that they should even now refuse to pay a single dollar which can be shown to have been used honestly for public purposes, and for which the State got value received, even though such a loan did not conform strictly to the technical requirements of the law. If it can be satisfactorily demonstrated that among the repudiated bonds of the Southern States there is any part of them which represents money obtained for the State, and used by the State, which has not yet been paid, then the settlement of such should, and will be, made in due time. It was necessary to apply a heroic remedy to save the South, by cutting from it the sores of the reconstruction thievery. If in applying the remedy injustice was done, in the necessity for immediate and incisive action, correction will no doubt be made wherever conservative sentiment is convinced that correction is due.

CLARK HOWELL.